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SUBJECT: NEW ZEALAND'S PRIME MINISTER HOSTS JOB SUMMIT IN HOPES OF
STIMULATING BUSINESS AND STEMMING JOB LOSSES

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¶1. (SBU) Summary. With New Zealand's unemployment rate expected to exceed 6 percent by 2010 and to remain around this level until mid-2012, Prime Minister John Key opened a Job Summit in Auckland on February 27. Key invited some 200 participants from business, labor, government and NGOs to develop the "top twenty" ideas with the potential to save or create tens of thousands of jobs and protect New Zealand from the worst effects of the recession. The top three ideas to come out of the Summit are: a nine-day working/fortnight (10th day funded training), a joint government/private industry investment fund to help financially distressed firms and a bike path running the length of New Zealand. The ever worsening deficit now at NZ\$8.4 billion will severely limit the Government's funding options for these ideas. The 2009 Budget will be released on May 28, 2009, which gives the Government approximately 90 days to access funding and viability of the proposed ideas. End Summary.

Context

¶2. (U) The New Zealand Institute of Economic Research (NZIER) in its latest quarterly economic outlook (March 3) is warning that recovery from New Zealand's current recession may not be on the horizon until around 2012 and a return to 3 percent annual growth experienced by NZ prior to the current recession is not likely until **¶2013**. As the economic outlook weakens, NZIER's jobless forecasts now predict the unemployment rate to exceed 6 percent (currently 4.2 percent) by this time next year and to remain around this level until mid-2012.

¶3. (U) Although NZIER's analysis paints a "moderately pessimistic" prognosis for the economy, "the current recession is not yet forecast to be as deep and long (as last major recession in 1991) and the likelihood of unemployment moving into double figures is still extremely low," per NZIER. Over the next year, the combination of lower interest rates (than in 2008), lower petrol prices, still relatively high wage inflation, scheduled tax cuts (April 2009) and net plus immigration should all help stimulate a modest increase in private consumption. "The upturn will be gradual, as consumers remain cautious in the face of rising unemployment." With economic growth in New Zealand's trading partners expected to strengthen in 2010, there is optimism that export volumes would follow, particularly in the main export -

dairy.

The PM's Job Summit

¶4. (U) With the current pessimistic economic backdrop, Prime Minister John Key marked his 100th day in office on February 27 by opening a Job Summit in Auckland inviting some 200 participants from business, labor, government and NGOs to a brainstorming session aimed at generating the "top twenty" ideas with the potential to save or create tens of thousands of jobs and prop up shaky Kiwi businesses.

¶5. (U) The top three ideas to come out of the Summit are the nine-day working fortnight (two week), a joint government/private industry investment fund worth hundreds of millions of dollars to help financially distressed firms and - the surprise item - a bike path running the length of New Zealand. These are just three of the twenty main ideas to emerge from the Job Summit meant to buoy up the economy.

¶6. (U) Prime Minister Key intends to give priority to taxpayer-paid training subsidies for businesses that cut a working fortnight to nine days, with nine days' pay and the tenth day for training. He has ruled out the Government entirely paying the wages for the tenth day, saying: "I think it would not be possible to fund it (tenth day wage) 100 per cent." The Government was more likely to pay for training rather than offer outright wage replacement. The cost to the Government of paying a one-day-a-fortnight wage subsidy has been estimated at NZ\$320 million a year. This scheme anticipates coverage for upward estimates of 100,000 workers though no details have yet been confirmed. Lower estimates have the scheme assisting as few as 10,000 workers. In Key's closing remarks he said he wanted to investigate this idea without delay.

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¶7. (U) The summit also considered Mr. Key's idea to complete the "Te Araroa" walkway to traverse the length of New Zealand and a plan for a country-wide bike path to course through national parks. Under the plan, NZ\$50 million would be spent to employ 4000 people to build the national bike path. The most expensive proposal from the summit was for an equity investment fund involving the Government and private banks as partners.

Joint Business/Government Fund to Aid Distressed Enterprises

¶8. (U) After intense debate, the country's private banking sector also came up with an offer of a joint fund with the Government to help financially distressed firms through short-term equity injections. The fund - if it gets off the ground - would result in the banks putting in NZ\$1 billion and the Government matching this amount. Given the banks' strong credit rating, the fund could borrow another NZ\$8 billion to create a \$10 billion nest egg to deal with companies that had good, long-term prospects but needed equity to survive in the short term.

¶9. (U) The move came after Reserve Bank Governor Alan Bollard took the unusual step of publicly warning the private banks that they should not underestimate the anger in the corporate sector about their behavior since the global credit crunch hit international financial institutions. After Mr. Bollard's statement, the banks' executives reacted saying they had already lent out NZ\$3.6 billion in corporate credit in the last quarter, funded by NZ\$4 billion from their Australian parent companies. The banks said they were committed to continue lending on the same basis in the future to "creditworthy" businesses. The banks have also offered to develop over a longer period an equity growth fund to make "quality" investment in small- to medium-sized businesses. Prime Minister John Key said the idea of a joint fund was one that had come solely out of the Summit and the Government would consider it carefully.

¶10. (U) Other major ideas to come out of the summit include:
--A freeze on regulation making and enforcement activity reduced to minimum acceptable standards.

--A moratorium on the introduction of minimum air and drinking water quality standards until that could be afforded.

--A NZ\$60 million fund to boost tourism numbers set up by the private and public sectors.

¶11. (U) Many of these ideas were in line with the Government's broad economic policies such as bringing forward and fast tracking big infrastructure project spending and getting more people into education and retraining causes. The complete list of proposals can be viewed at: www.beehive.govt.nz/feature/summit.

Public Reaction

¶12. (U) Employers and labor unions agreed that changes to working hours may be a workable solution. The Employers and Manufacturers Association's David Lowe said, "the number of businesses considering a four-day week was increasing (prior to the Summit) and companies which need to make changes to stay in business were facing a choice between downsizing or simply asking everybody to take a day off without pay." Lowe said businesses preferred to make as few changes to workforce as possible and saw the nine-day/fortnight scheme as an across the board plan that would negatively affect business and workers minimally. Andrew Little, secretary of the Engineering, Printing and Manufacturing Union (EPMU), the largest private sector union in NZ, said, "talk about a four-day working week (i.e., fifth day unpaid) has now evolved (post Summit) into consideration of the nine-day/fortnight scheme and I think there is a willingness by labor unions to explore the idea and look at the potential costs for training."

¶13. (U) The news media's reaction to the Job Summit was relatively tepid. Out of the 20 Summit recommendations, the media's reaction ranged from mildly mocking (regarding the bike path) to stressing the obvious - need to save jobs and stimulate the economy. Overall, the media categorized the proposals as blandly generic but saw the joint business/government equity fund as having the most promise as long as details can be worked out quickly.

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¶14. (U) The opposition Labour Party's leader, Phil Goff, was critical of the (National) Government's decision not to invite Labour to the Summit and noted that there was a "overly strong public relations element" to the gathering. Nevertheless, Goff supported the overall intent of the Summit.

Wither the Funding

¶15. (U) As the Government attempts to implement some of the ideas generated from the Job Summit, it faces the equally onerous task of finding sufficient funding to launch the schemes. At the end of February, the New Zealand Treasury reported that tax revenue was NZ\$1 billion below forecast in the six months to December 2008, leaving the Government with an operating deficit of NZ\$6.2 billion. This amount is NZ\$8.4 billion (the amount the Government needs to borrow) worse than expected before the election and NZ\$2.4 billion worse than the Treasury's latest forecast before Christmas. The main reasons for the operating deficits according to Treasury are tax revenue being NZ\$1 billion lower than forecast, investment losses (mainly from Superannuation Fund - so called "Cullen Fund") being NZ\$4.9 billion higher than forecast, and \$2.4 billion in losses recorded by Accident Compensation Corporation (ACC - personal injury coverage) because of a change in the discount rate used to measure the ACC's unfunded liability.

May Budget Will Indicate Which Ideas Find Favor

¶16. (SBU) New Zealand's Minister of Finance Bill English will deliver the Government's 2009 Budget on May 28, 2009. As a result, the Government has given itself at least 90 days to ascertain which of the 20 ideas generated from the Summit it can comfortably afford to fund considering its widening deficit. It may be necessary for the Government to borrow the required funding from international

sources but Mr. English has previously sounded a cautious note about the effect additional debt would have on the country's overall credit rating. The May Budget numbers will clearly spell out the fiscal extent to which the Government can go to implement the Jobs and Growth initiatives in its desire to protect New Zealand from the worst effects of the recession.

Comment

¶17. (SBU) Most commentators agreed there were no silver bullets evident on the Job Summit conclusions and recommendations, but credited Key with reaching out to assemble a cross-section of the country's business elite, union and academic leaders, and relevant GNZ officials. The opposition Labour Party complained that they were not included in the Summit, but their new party president (Andrew Little of the EMPU) was credited for proposing the nine-day working fortnight, which was one of the better-received suggestions coming out of the Summit. How the ideas generated from the Summit are translated into the May budget will be an indication of whether or not Key's Job Summit was a success or merely a talkfest. End Comment.

KEEGAN